

Message Text

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ORIGIN EA-09

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DRAFTED BY OSD(COMPTROLLER):JPBARBER:EH
APPROVED BY EA/J:DFLAMBERTSON
ISA/FMRA:LOPRLANDER
ISA/EAR:COLBARRETT
TREASURY:SCHWANN(CRBAKER)
EA/IFD/OMA:TFORBORD
EA/J:EMFEATHERSTONE
EA/EX:DWETHERBEE

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TO AMEMBASSY TOKYO
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E.O. 11652:N/A

TAGS: PARM, EFIN, JA

SUBJECT: EARNINGS ON DOD LOCAL CURRENCY BALANCES IN JAPAN

JOINT DOD/STATE MESSAGE

1. THE DEPARTMENT OF DEFENSE IS ASSUMING RESPONSIBILITY
FOR THE OVERSEAS MILITARY BANKING FACILITY (MBF) PROGRAM
FROM THE TREASURY DEPARTMENT. DOD HAS ALREADY ASSUMED THE

MANAGEMENT ROLE AND WILL FUND THIS PROGRAM WITH APPROPRIATED
FUNDS AND UNDER CONTRACTS BEGINNING ON OCT 1, 1977.

2. THERE IS CURRENTLY A STUDY UNDER REVIEW BY THE DEPT OF
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DEFENSE TO DETERMINE IF THE MBF PROGRAM IN JAPAN IS COST
BENEFICIAL.

3. THE RELATED USG SUBSIDY TO COMMERCIAL BANKS OF OVER-
SEEING THIS MBF PROGRAM HAS INCREASED SIGNIFICANTLY IN
RECENT YEARS AND TO OFFSET THESE EXPENSES WE ARE EXPLORING
AREAS OF POTENTIAL REVENUE. THE NET COST OF OPERATING MBFS

IN JAPAN INCREASED FROM 2.6 MILLION DOLS IN 1974 TO 3.8 DOLS IN 1976. THIS IS A SIGNIFICANT PART OF WORLDWIDE MBF COSTS.

4. UNLIKE OTHER COUNTRIES WHERE MBFS OPERATE, THE NON-

APPROPRIATED FUND AND DISBURSING OFFICER LOCAL CURRENCY (YEN) ACCOUNTS ARE MAINTAINED AT THE FINANCIAL INSTITUTION'S COMMERCIAL BRANCH RATHER THAN AT THE MBF AND THEREFORE DO NOT GENERATE ANY INCOME FOR THE MILITARY BANKING PROGRAM. THIS LOSS OF POTENTIAL INCOME INCREASES THE MBF OPERATING DEFICIT AND THEREFORE, THE GOVERNMENT'S SUBSIDY, THEREBY MAKING IT MORE DIFFICULT TO JUSTIFY A MILITARY BANKING PROGRAM IN JAPAN.

5. DOD IS PRESENTLY REVIEWING EXISTING STATUS OF FORCE ARRANGEMENTS WITH JAPAN TO DETERMINE IF THESE YEN BALANCES GENERATED FROM DISBURSING OFFICERS AND NAFS CAN BE MAINTAINED AT MBFS OR IF THE USG CAN BE PAID INTEREST ON THESE BALANCES, IF THEY HAVE TO BE MAINTAINED AT THE FINANCIAL INSTITUTION'S COMMERCIAL BRANCH. UNLESS PRECLUDED BY EXISTING ARRANGEMENTS, PRESENT PLANS ARE TO REVISE OUR PROCEDURES TO HAVE THE FINANCIAL INSTITUTIONS PAY INTEREST AND CREDIT THE USG WITH SUCH INTEREST BEGINNING NO LATER THAN JUNE 1, 1977. TREASURY ALSO MAY WANT TO DISCUSS THE PAYMENT OF INTEREST BY THE BANKS ON THE DEPOSITS THEY PREVIOUSLY HOLD, IF SUCH ACTION PROVES FEASIBLE AND APPROPRIATE.

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6. PREVIOUSLY, TREASURY AND BANK OFFICIALS WERE UNDER THE IMPRESSION THAT EITHER JAPANESE BANKING LAWS OR THE STATUS OF FORCES ARRANGEMENTS PROHIBITED THE USG FROM OBTAINING EARNINGS ON THESE YEN BALANCES. OUR CURRENT REVIEW OF THIS SITUATION INDICATES THAT BANK OFFICIALS FROM BOTH CHASE MANHATTAN AND AMERICAN EXPRESS CAN FIND NO EXISTING LAWS WHICH WOULD PROHIBIT THEM FROM, AT LEAST, PAYING INTEREST ON THESE ACCOUNTS TO THE USG.

7. YOUR VIEWS ON THE CONTEMPLATED ACTION WOULD BE APPRECIATED. CHRISTOPHER

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